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Committee on Transportation and Infrastructure
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Amtrak Reform Proposal –

The Infrastructure Management Organization Plan

Statement of

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Good morning Mr. Chairman, Madame Ranking Member, and distinguished committee members. Thank you for providing me the opportunity to comment on Amtrak reform.

My name is Robert Serlin. My background has been developing business solutions for revitalizing capital-intensive transportation and basic commodities companies.

I am President of Rail Infrastructure Management, LLC, an entity initially organized in 1997 to analyze opportunities for investment in the rail industry and to provide the public sector a partner with which to develop innovative rail passenger solutions. One such solution is a proposal called the **Infrastructure Management Organization ("IMO") Plan.**

REALIZING THE VISION

Congresswoman Lynn Schenk articulated a positive vision for our nation's passenger rail service in the 1994 High Speed Rail Act House floor debate when she said: "Our ultimate goal is the construction of a safe, fast, efficient, and environmentally sound transportation alternative for all Americans."

The IMO Plan is Congress' road map to achieve this vision. Under the IMO Plan:

- High-speed train trip-times between New York and Washington would be reduced from close to three hours to roughly two hours by focusing capital expenditures on eliminating choke points and providing infrastructure redundancy.
- Commuter carriers would be able to integrate their services by operating new run-through trains, as the IMO adds infrastructure capacity, instead of being confined to geographic areas for historical reasons.
- New city pair combinations would be encouraged to permit rail passenger traffic to expand meaningfully.
- Improved station access would attract more travelers, thereby reducing gasoline consumption and highway congestion.

- Dedicated airport express train services would help speed travelers to airline check-in.
- New stations would be developed using proven “Transit-Oriented-Development” principles (*e.g.*, restaurants, business centers, meeting locations, and retail outlets) to enhance the desirability of the rail mode.

The IMO Plan allows better intercity and commuter services in the Northeast and Midwest to evolve, tailored to the stakeholders’ needs. It permits Congress to focus on transportation services that constituents demand and that states and other governmental entities desire.

The future of passenger rail service lies in a more vibrant system fueled by a greater number of trains and a greater variety of train services. The IMO Plan is a win-win opportunity for the nation’s rail passenger stakeholders—labor, Amtrak, the states, rail passengers, commuters carriers, freight railroads, etc. It provides a solid base upon which to build the modern rail passenger network that government leaders and travel advocates have championed for the past thirty years.

The IMO Plan offers a solution to both the funding challenge and the looming requirement to address the ever-increasing deferred maintenance liability. Additionally, the IMO Plan makes a one-time payment of $2 billion to Amtrak and assumes from Amtrak almost $750 million in infrastructure-secured debt. This improves Amtrak’s balance sheet, furnishing Amtrak the means and allowing it the time to address the needs of its entire forty-six state system.

Under the IMO Plan, multi-state compacts are not required and states are not obligated to fund the maintenance of or capital expenditures on the Federal Government’s owned infrastructure.

This vision of rail passenger service can be reached. The IMO Plan is the route.

ORIGIN OF THE IMO PLAN

The IMO Plan is rooted in the recommendations of the Blue Ribbon Panel—the 1997 House T&I Committee's "Working Group on Intercity Rail Passenger Service," sponsored by Chairman Bud Shuster. The Blue Ribbon Panel analyzed Amtrak's requirements and operations and concluded that Amtrak is really two distinct businesses with totally different operating and funding needs: a transportation service provider and an infrastructure manager.

While Amtrak operates passenger trains over roughly 23,000 route-miles, it owns and is responsible for only about 2% of that network or 600 route-miles—about 500 route-miles in the Northeast and about 100 route-miles primarily in Michigan. Amtrak's President, David Gunn, stated in his "Myths about Amtrak" that long-distance trains only lose about $300 million annually. This means that most of the rest of Amtrak's $1 billion plus operating losses must be attributable to its owned infrastructure.

Since 1997, the Department of Transportation's Inspector General, the Government Accountability Office, and, most recently, numerous members of Congress, have reached the conclusion: the status quo is not sustainable and change is necessary.

THE IMO PLAN

The IMO Plan implements the Blue Ribbon Panel's findings by separating Amtrak into two Federally owned entities.

The first Federal entity, Amtrak, continues its primary responsibility as a transportation service provider. It retains the reservations system, locomotives, passenger cars, maintenance of equipment workshops, and operating rights on the nation's rail network. It continues to operate all of its current intercity, Northeast Corridor, and contract commuter trains.

Utilizing David Gunn's previously noted analysis, the effect of the IMO Plan on future required appropriations can be seen. By separating Amtrak's owned infrastructure from its train operating functions, the current forty-six state network can be sustained on an annual appropriation of approximately $300 million—significantly less than the $1.8 billion that Amtrak requested for FY 2006.

The second Federal entity owns the 600 route-miles of Amtrak infrastructure, passenger stations on that infrastructure, and catenary. A private sector operator manages this infrastructure. The Surface Transportation Board (STB), using its existing directed service authority, conducts a public solicitation and selects an Infrastructure Management Organization ("IMO") from among the competing applicants. The IMO is responsible for managing the infrastructure for a period of fifty years and for funding, throughout that period, all rail infrastructure operations and improvements. Each improvement becomes the property of the Federal Government as it is made. At the end of the fifty years, the Federal Government can either re-let the management concession or operate the infrastructure itself.

The IMO has strong incentives to increase the number of passengers in order to generate new revenue. Revenue increases come from new train services that pay track-mileage fees to the IMO and from which the IMO pays for infrastructure improvements. Because of the huge, front-end loaded investments, it is projected that the IMO will require about fifteen years to generate enough revenue to break even.

Travel reliability and security redundancy will increase, while trip-times between New York and Washington will be reduced to approximately two hours versus the current three hours by addressing deferred maintenance through aggressive engineering and construction and major new capital investments.

The IMO must truly be a neutral party that does not operate any of its own trains and is not in competition with its customers—the users of the infrastructure it manages. The only way the IMO succeeds is if its customers succeed.

By fostering a new working relationship with the states and the Congress, the IMO Plan creates a platform upon which new and exciting rail services can be launched, either by Amtrak, the existing commuter operators, or new transportation service providers. The result will be more service options, with greater access to the Northeastern rail network, allowing more passengers to enjoy the efficiencies and cost benefits of rail travel. The plan forces the IMO to innovate and thrive by developing new opportunities for transportation service providers and increasing the number of trains using the infrastructure.

LABOR, COMMUTER, FREIGHT, AND PUBLIC PROTECTIONS

Identifying principal stakeholders and addressing their needs is a key element of making the IMO Plan a win-win solution.

The existing infrastructure employees are a valuable and irreplaceable resource. Labor must be treated fairly and equitably in order to assure the success of the IMO. Under the IMO Plan, the IMO is required to offer employment to all Amtrak infrastructure employees. Employment rights, including contracts and representation, and current statutory safeguards are all preserved. The IMO Plan makes the IMO subject to the Federal Employers' Liability Act (FELA), Railway Labor Act (RLA), Railroad Retirement Act of 1974, Railroad Unemployment Insurance Act, and Railway Safety Act (RSA). Because Amtrak will continue to operate all of its intercity and Northeast Corridor trains, implementing the IMO Plan will not be a discontinuance that would trigger the employee protection provisions in Amtrak's collective bargaining agreements.

Vested commuter carriers and freight railroads with operating rights must also be protected. All pre-existing contracts and agreements are transferred to and honored by the IMO, including the commuter carriers' “avoidable cost" access fee structure.

Amtrak is the IMO's largest customer and its financial well-being is important to the IMO. The IMO Plan adds almost three billion dollars to Amtrak's balance sheet. Amtrak must be able to run its high-speed trainsets at up to 150 mph between New York and Washington in as few as two hours, have its timetable patterns protected, and pay a fair rate for the infrastructure it uses.

The Federal Government is, perhaps, the most important stakeholder. Secretary Mineta has developed a set of principles that are a solid basis for a legislative proposal and which the IMO Plan satisfies. Additionally, the IMO would be subject to all current and future Federal rail safety legislation and the jurisdiction of the STB and Federal Railroad Administration.

To align the long-term interests of the owners of the IMO to those of the Federal Government, ownership of the IMO is non-transferable for the full fifty-year management concession term.

In the event the IMO does not comply with the enabling legislation, the IMO must correct deficiencies or risk financial penalties, revocation of the right to be the IMO, and loss of all program loan funds and assets.

The Inspector General of the Department of Transportation is vested with authority to certify compliance with the terms of the legislation. The IMO is also required to file with the Secretary of Transportation and the Congress annual reports both of its audited financial results and its operations.

FUNDING STRUCTURE

The IMO is financed using the zero scoring Railroad Rehabilitation Infrastructure Financing (“RRIF”) loan program. Under the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2005 (SAFETEA-LU), RRIF program authorization was increased to $35 billion.

The IMO would be allowed to borrow up to $17.5 billion under the RRIF program, after having given the United States Treasury a repayment guarantee issued by an investment-grade third party in the amount of the full $17.5 billion. The IMO is required to invest a minimum average of $600 million annually in the Federal Government's owned infrastructure, as the interest on the loan. On average, this is nearly three times more than the amount Amtrak currently spends annually on its owned infrastructure.

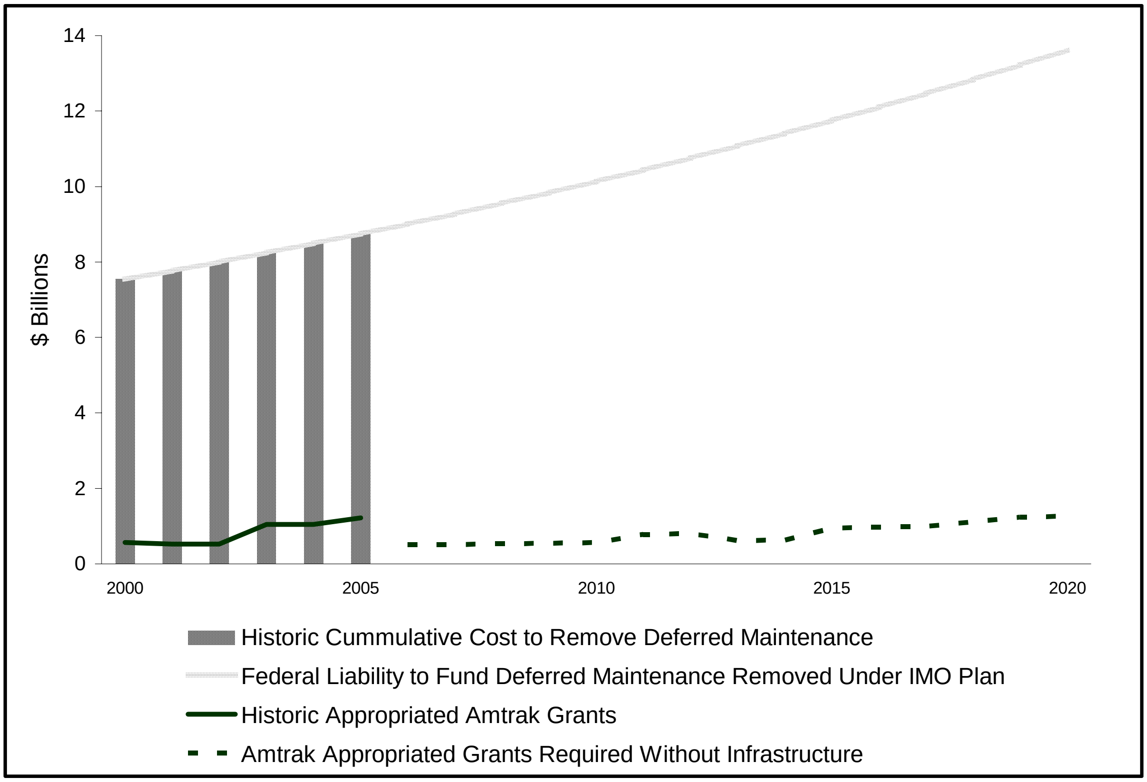
AMTRAK'S HIDDEN LIABILITY

Amtrak's owned infrastructure, particularly its Northeast Corridor, suffers from many years of deferred maintenance and depreciated assets. Based upon Amtrak, Department of Transportation, and Government Accountability Office reports, this liability is now estimated to be over $8.7 billion.

Major infrastructure components, renewed in the early 1980's, are now approaching the end of their useful and reliable lives and will soon have to be replaced. As the General Accounting Office (now Government Accountability Office) reported, spending money to return the aging Northeast Corridor to a "state-of-good-repair"—although significant—is <u>merely improving the corridor to its condition in 1981</u>, at the end of the Northeast Corridor Improvement Project.

If Amtrak's deferred maintenance is not addressed in a timely manner, the integrity of the Federal Government's owned infrastructure may be in jeopardy. Trip-times may be increased. Safety could be compromised. Service will be degraded. Operating costs will go up.

The following graph shows the positive effects of transferring the Federal Government's infrastructure liability to the private sector and of reducing by about two-thirds Amtrak's annual appropriations for operating trains.



Through enactment of the IMO Plan, the private sector assumes full responsibility for funding the repair, operations, and improvement of the infrastructure.

SOLUTION AT HAND

The Federal Government has been able to fund Amtrak's annual operating budget. It has, however, been unable to fund Amtrak's multi-year capital improvements and infrastructure investments appropriations. This has resulted in Amtrak's $8.7 billion deferred maintenance liability.

By increasing the RRIF loan authority, the Transportation and Infrastructure Committee has created a loan program that enables the private sector to fund our nation's rail infrastructure multi-year investments. The vehicle to achieve this is the IMO Plan.

Public-private solutions, like the IMO Plan, already exist. They work for new freight and passenger rail infrastructure projects, such as the Alameda Corridor and Boston's commuter rail service. They work for private toll roads, such as the Dulles Greenway. And, they work for the construction and management of airport facilities, such as the terminal management at Pittsburgh International Airport.

As the Hon. Wayne Burkes, former Commissioner on the Surface Transportation Board, and Michael McBride recently authored: “It is precisely because we are advocates for passenger rail travel that we believe Congress and the Administration should promptly adopt the IMO Plan. . . . [T]he IMO Plan is designed to accommodate the interests of all of Amtrak’s stakeholders, including Amtrak itself.”

Thank you for providing me the opportunity to testify, and I welcome questions you might have.

BENEFITS OF THE IMO PLAN

The IMO Plan:

- **Reduces Amtrak's annual appropriation requirement by over $1 billion**
- **Removes all infrastructure ownership costs from Amtrak and eliminates infrastructure Federal appropriations**
- **Retains full Federal Government ownership of all Amtrak infrastructure assets**
- **Keeps Amtrak as the single national passenger carrier**
- **Assures Amtrak's infrastructure employees their positions and collective bargaining rights**
- **Invests over 300% more annually on Amtrak's owned infrastructure than Amtrak**
- **Permits Amtrak to match passenger revenues with train costs to increase accounting transparency to public agencies**
- **Allows Amtrak to run entire current National System for appropriations under $600 million annually**